

## Message Text

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ACTION NEA-10

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R 141330Z NOV 75 ZDK  
FM AMEMBASSY NEW DELHI  
TO SECSTATE WASHDC 2260  
INFO AMEMBASSY DACCA  
AMEMBASSY IALAMABAD  
AMEMBASSY KATHMANDU  
AMCONSUL BOMBAY  
AMCONSUL CALCUTTA  
AMCONSUL MADRAS  
USLO PEKING

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E.O. 11652: N/A

TAGS: ETRD, ETRN, NP, IN

SUBJ: INDO-NEPALESE TRADE TALKS

REF: KATHMANDU 4834 (NOTAL)

SUMMARY: GOI OFFICIALS INDICATED THAT THEIR MAJOR CONCERNS AT THE RECENT JOINT REVIEW COMMITTEE (JRC) TRADE MEETING IN KATHMANDU WERE SMUGGLING (PARTICULARLY HASHISH) AND HIGH RATES OF NEPALESE BONUS VOUCHER SCHEME. TO OUR KNOWLEDGE THIS IS THE FIRST TIME THAT THE HASHISH PROBLEM HAS BEEN RAISED BY THE GO IWHT THE GON ON OTHER THAN THE LAW ENFORCEMENT LEVEL. NEPALESE ARE STILL CRITICAL OF CALCUTTA PORT DEMURRAGE CHARGES AND TRANSIT PROBLEMS. EACH SIDE PLAYS DOWN THE IIMPORTANCE OF THE PROBLEMS OF THE OTHER. AT PRESENT THERE DOES NOT APPEAR TO BE AN INTEREST ON EITHER SIDE OF SIGNIFICANTLY ALTERING THE TERMS OF THE TRADE AND TRANSIT TREATY. END SUMMARY.

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1. EMBOFFS DISCUSSED RECENT JRC MEETING WITH MINISTRY OF COMMERCE JOINT SECRETARY VARMA, WHO HEADED INDIAN TEAM, AND WITH ACTING DIRECTOR NORTHERN DIVISION MEA, J. DAULET SINGH. VARMA INDICATED THAT THE GOI WAS MOST WORRIED ABOUT THE SMUGGLING OF HASHISH FROM NEPAL TO INDIA. HE HOPED THAT NEPALESE AUTHORITIES WOULD TAKE A MORE ACTIVE HAND IN CURTAILING HASHISH PRODUCTION. VARMA SAID THAT THE GOI HAD EXPRESSED COGFERN ABOUT THE RISE IN RATES UNDER NEPAL'S BONUS VOUCHER SYSTEM. HE DOWNPLAYED GON COMPLAINTS ABOUT DELAYS IN OBTAINING RAILWAY WAGONS AND OTHER TRANSIT PROBLEMS, CLAIMING THAT THERE WERE NOW PLENTY OF WAGONS. HE SAID THAT INCREASED CALCUTTA PORT DEMURRAGE CHARGES APPLIED EQUALLY TO EVERYONE, AND THAT NEPAL EVEN HAD A PRIVILEGED POSITION IN TERMS OF WAREHOUSE SPACE AT THE PORT.

2. VARMA SAID THAT THE JRC WAS NOT MEANT TO REACH ANY NEW AGREEMENTS, BUT TO DISCUSS AND MAKE SOME TANGIBLE PROGRESS IN IMPLEMENTING THE TRADE AND TRANSIT TREATY. IN THIS CONNECTION HE WAS CRITICAL OF NEVEMBER 6, 1975 "TIMES OF INDIA" ARTICLE BY KURVE (COPY OF WHICH HAS BEEN POUCHED TO DENNIS MURPHY) WHICH, VARMA CLAIMED, OVER-EMPHASIZED THE DIFFERENCES BWETWEEN THE TWO COUNTRIES.

3. SINGH, BY CONTRAST, WHILE INITIALLY MAINTAINING THAT THERE WERE NO REAL PROBLEMS BETWEEN NEPAL AND INIA, SAID THAT UNNAMED THIRD COUNTRIES WERE ATTEMPTING TO INTERFERE IN THEIR RELATIONS. (COMMENT: SINGH PRESUMABLY WAS REFERRING TO CHINA AND PAKISTAN BUT REFUSED TO BE MORE EXPLICIT.) SINGH INDICATED A CERTAIN IMPATIENCE ON THE PART OF THE GOI WITH THE NEPALESE WHO, HE SAID, SEEK CONCESSIONS BY STATING THEIR DEMANDS IN THE FORM OF COMPLAINTS. THE GOI, SINGH OBSERVED, WAS NOW NO LONGER AMENABLE TO THIS TACTIC. SINGH MAINTAINED THAT THE GOI HAD MORE THAN MET ITS OBLIGATIONS UNDER THE TRADE AND TRANSIT TREATY, THAT THE GON WAS BEING UNREASONABLE IN SEEKING SPECIAL ECONOMIC CONCESSIONS SUCH AS ON COMMODITY PRICING, AND THAT THE GOI HAD GENUINE CONCERNS WITH NEPAL'S BONUS VOUCHER SYSTEM AND THE SMUGGLING PROBLEM. HE SAID THAT THE GOI HAD NOT YET BEGUN TO FORMULATE ITS NEGOTIATING POSITION ON THE RADE AND TRANSIT TREATY.

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4. DESPITE HIS GENERAL NON-CONCILIATORY ATTITUDE TOWARD NEPAL, SINGH OBSERVED THAT THERE HAS BEEN A CONSTANT IMPROVEMENT IN INDO-NEPALESE RELATIONS SINCE THE LOW POINT FOLLOWING THE NEPALESE POSITION ON SIKKIM. HOWEVER, NO DATES HAVE BEEN SET FOR THE VISIT OF FOREIGN MINISTER CHAVAN TONEPAL, AND SINGH SAID THAT BECAUSE OF THE MINISTER'S BUSY SCHEDULE THE VISIT PROBABLY COULD NOT

TAKE PLACE BEFORE NEXT FEBRUARY OR SO.

5. NEPALESE EMBASSY COUNSELOR SHAH TOLD EMBOFF THAT THE NEPALESE CONSIDERED THE LACK OF RAILWAY WAGONS AND HIGH DEMURRAGE CHARGES AS CONTINUING SERIOUS PROBLEMS. THE GON HAD A GRIEVANCE OVER INDIA'S QUOTAS, PARTICULARLY AS THEY RESULTED IN HIGH COAL PRICES. SHAH THOUGH THAT SMUGGLING WAS NOT AN IMPORTANT PROBLEM, BUT CONCEDED THAT THE INDIANS HAD A CASE REGARDING NEPAL'S EXPORT BONUS VOUCHER RATES. HE SAID THAT THE KURVE ARTICLE WAS AN ACCURATE REFLECTION OF THE MEETING. SHAH INDICATED MANY OF THESE MATTERS WOULD BE DISCUSSED FURTHER AT THE CONTINUATION OF THE JRC MEETING IN KATHMANDU IN ABOUT A MONTH. HE THOUGHT THERE WOULD PROBABLY BE ANOTHER JRC MEETING IN NEW DELHI BEFORE THE TREATY EXPIRED NEXT AUGUST.

6. SHAH SAID THAT THE NEPALESE WERE BASICALLY SATISFIED WITH THE TERMS OF THE TREATY, ALTHOUGH THEY WERE NOW REVIEWING IT. HE THOUGHT THE MAJOR PROBLEM IS IN ITS IMPLEMENTATION. HE SAID THAT THE GOI MAY NOT WISH TO MAKE ANY CHANGES IN THE TREATY IN WHICH CASE THERE IS A GOOD CHANCE THAT IT WOULD BE RENEWED FOR ANOTHER FIVE YEARS.

7. COMMENT: PERHAPS THE MOST INTERESTING POINT GLEANED FROM OUR DISCUSSIONS HERE IS THE EMPHASIS GIVEN TO THE PROBLEM OF HASHISH SMUGGLING BY THE GOI IN THE JRC MEETING. TO OUR KNOWLEDGE THIS IS THE FIRST TIME THIS SUBJECT HAS BEEN RAISED WITH THE GON ON OTHER THAN THE LAW ENFORCEMENT LEVEL. WE WONDER WHETHER THIS INDICATES AN INCREASED INTEREST IN THE GOI IN THIS PROBLEM AND WOULD APPRECIATE ANY INFORMATION EMBASSY KATHMANDU CAN DEVELOP CONCERNING THE NEPALESE REACTION TO THE INDIAN PRESENTATION AT THE JRC.  
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8. AS SEEN FROM HERE, THE GON AND THE GOI HAVE EACH ADOPTED THE POSTURE OF EMPHASIZING THEIR OWN PROBLEMS AND MINIMIZING THE VALIDITY OF THE OTHER'S COMPLAINTS. ALTHOUGH THERE DOES NOT APPEAR TO BE MUCH INTEREST ON EITHER SIDE OF SIGNIFICANTLY ALTERING THE TERMS OF THE CURRENT TREATY, WE BELIEVE THAT THERE WILL BE SOME INTENSE DISCUSSION OF THE ISSUES MENTIONED ABOVE PRIOR TO THE CONCLUSION OF A NEW TREATY.  
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## Message Attributes

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